DRAFT ENVISION SAN JOSÉ 2040 GENERAL PLAN UPDATE ANALYSIS OF SAN JOSÉ'S FISCAL CONDITIONS AND PROJECTIONS OF FUTURE SCENARIOS

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Prepared for

The City of San José

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I. EXECUTIVE SUMMARY

A. INTRODUCTION

The General Plan Fiscal Impact study provides an analysis of existing City service levels and fiscal conditions, as well as an analysis of future growth scenarios. The study also presents a fiscal impact model that has been developed specifically for San José to evaluate the future effects of land use changes. This analysis provides background for the Envision San José 2040 Task Force to better understand how the City's current fiscal condition may change in response to different land use and growth patterns embodied in the future growth scenarios.

The current economic climate certainly affects the City's fiscal health and has created potentially long term issues for the City in meeting its public services goals. Overall, the budgetary imbalance that has been described as a "structural deficit" has resulted from issues associated with both increasing costs and decreasing revenues. The City has struggled to construct a stable and adequate tax base to provide adequate revenues to provide the high quality of service San José residents have come to expect as the community's population, and subsequent service level demands, have increased. Concurrently, costs, particularly those associated with employee salaries and benefits, have risen significantly in recent years. In late 2008, the City Council approved the General Fund Structural Deficit Elimination Plan which identified multi-year strategies to eliminate the deficit within the next five years. The City Manager and City Council have further examined the proposed strategies and will continue to work toward a sustainable fiscal program for the City.

A central issue in the General Plan update and in this fiscal analysis is the effect of residential density on the demand for City services. The City's land supply is limited over the long term and its ability to provide affordable housing opportunities for the growing workforce will depend on its ability to encourage development at higher densities. This is critical to enhance the City's economic prosperity as well as its community quality of life. The question is, what challenges does this present for the City in terms of funding a desirable level of services for its residents?

For many of the City services that are funded by the General Fund (i.e., general tax revenues), the primary service indicator is population. The Police Department, the Parks and Recreation Department, and the Library all define service needs and related staffing and facilities requirements in terms of the size of the City population. Even the Fire Department, which is mainly concerned with response times and proximity to development, spends much of its time and budget responding to medical emergencies rather than fire suppression, the volume of which is directly related to the size of the population rather than the land use pattern. In terms of meeting these service standards, increasing density does not have a major benefit in terms of reducing service demands. Those demands are driven by the number of residents, not the type of housing they live in.

The volume of calls for service is one part of the picture but there are other considerations. The Police Department also measures its performance in terms of response time to incidents, and a dispersed, low density land use pattern affects the travel times needed to reach outlying areas in the City. Similarly, the Parks Department has a goal to provide parks within ½ kilometer of every resident, and a compact development pattern makes this more feasible. Related to this is the fact that in order to provide the quantity of parks and recreation facilities needed to serve the growing population, land must be set aside for this purpose and a compact development pattern helps to conserve land resources.

Other services are more directly related to site development characteristics, including transportation infrastructure, water supply, wastewater collection, storm sewers and solid waste collection. For these services, the costs of maintenance and operation are related to the length and size of the infrastructure, which are strongly affected by the density of development. With the exception of road maintenance costs, however, these services have less impact on the City General Fund because they are funded to a greater degree by user fees and direct service charges.

The focus of this analysis is on the City General Fund, which is mainly supported by general tax revenues over which the City has less control than it does on the level of user fees and charges for service. Within this context, the study indicates that a compact development pattern and higher residential densities can help improve the City's fiscal position in the future by improving efficiencies in its service delivery systems. However, the City can only reach a positive fiscal balance by also increasing the level of commercial development in the future.

Non-residential land uses tend to generate much higher tax revenues, in relation to service costs, than do residential uses. Hence, the land use mix is a critical consideration for the General Plan. The future growth scenarios analyzed in this report are constructed to portray different levels of jobs and housing balance, and this has a significant effect on the outcome of the fiscal analysis. While high density housing can help reduce certain service costs, such development only has a positive fiscal bottom line if the residents make most of their retail purchases in San José, generating sales tax for the City General Fund. The fact that San José currently experiences significant loss of retail sales from its own residents is a factor in its current fiscal situation. Compact, high density development with well-planned walkable mixed use supports and drives local retail spending. More efficient walkable communities can help to achieve this symbiosis.

Therefore, the conclusion of the fiscal analysis is that the City can support a more compact residential development pattern but only if it can maintain a sound balance of commercial and job-generating land uses to provide a strong revenue base.

Limitations of the Analysis

In reading the study, it is important to recognize that a fiscal impact analysis is not equivalent to a comprehensive economic impact analysis. The fiscal projections are narrowly focused

on the cost/revenue effect of future growth scenarios on the City General Fund budget. The report does not explicitly address the broader economic benefits of providing housing for a diverse workforce, and the stimulus that it will provide to the City's economic development and business climate. Much of the policy in the General Plan is aimed at improving long term resource efficiency, particularly land conservation. These policies have benefits in their own right that are generally outside the fiscal sphere and are not addressed in this report.

Indeed, state law and policy regarding local government finance fails on many levels to capture the full benefit of good community planning. Just one among many of these distortions is the fact that although residential development supports the household income that generates retail sales, unless the retail establishment is also located in San José, the City does not get any sales tax benefit from those transactions.

Finally, as the Envision San José 2040 General Plan Update process continues, the City's fiscal situation will continue to evolve, particularly in light of rapidly deteriorating economic conditions and the speed of the eventual recovery. The focus of this fiscal study is the long term change in fiscal conditions that are contingent upon land use changes that may occur through the General Plan. In order to complete that work, and specifically in order to develop the fiscal model that is needed to project future fiscal impacts, it has been necessary to establish a baseline for the analysis using the 2008-2009 Adopted City Budget and related City service standard goals. By the time this report reaches the Task Force, the current budget information for the City will have changed. However, it is unlikely that these changes would significantly affect the long term conclusions of the fiscal analysis.

B. ANALYSIS OF EXISTING CONDITIONS

CITY DEPARTMENT SERVICES ANALYSIS

In order to determine the implications of the City's current fiscal condition on the demand for City services, ADE completed departmental analyses of services provided, service facilities, and service standards of those City departments whose services are most directly associated with the City's growth and development. This report is not intended to evaluate the appropriateness of the City's service standards, but rather to provide an <u>information</u> <u>baseline</u> for use by the General Plan Task Force in determining the effects of future land use changes.

The analysis indicates that most departments are able to meet some of their service standards but not all of them.

Police Department

One of the primary measures of performance for both the Police and Fire Departments is response time to calls for service. The General Plan service goal for the Police Department is to achieve a response time of (1) six minutes or less for 60 percent of all Priority 1 calls, and (2) 11 minutes or less for 60 percent of all Priority 2 calls. The Police Department's performance for both Priority One and Two calls for service is slightly ahead of the General Plan goal of 60 percent for each, with levels of 62 percent for Priority One and 69 percent for Priority Two calls. The 2007 crime rate statistics reported in the Uniform Crime Report indicate that index crimes decreased slightly from 56,981 in 2006 to 55,039 in 2007, despite continued growth in the City's population.

In 2002, the voters of San José approved Measure O, the Neighborhood Security Act Bond Measure, which authorized the issuance of \$159 million in General Obligation Bonds to fund capital projects in the Police and Fire Departments. These projects include construction of a South San José Police Substation, community policing centers, a Driver Safety Training Center and renovation of the combined Police-Fire 9 -1-1 Communications Dispatch Center. These projects will provide enhanced facilities to improve delivery of Police services. The South San José Substation is expected to be completed in June 2010. Complete funding is not yet identified for the Driver Training Center.

Fire Department

The San José Fire Department is operating below the service level goals and standards established in the San José 2020 General Plan and the Adopted Budget. The General Plan service goal for the Fire Department is to "achieve a four minute average response time for all (100 percent) Fire protection related calls". Currently, the Fire Department achieves the 4 minute average response time on 68.5 percent of calls for service (FY 2006-07). Therefore, the Fire Department is currently not meeting the General Plan service goal. The Fire Department's measured service level performance objective, as contained in the FY 2008-2009 Adopted Budget ("Adopted Budget"), is "the percentage of time that the initial responding Fire unit arrives on scene after a 9-1-1 call is placed within eight minutes for Priority 1 calls and 13 minutes for Priority 2 calls". Performance results contained in the Adopted Budget indicate that the Fire Department is currently achieving the eight minute response time for Priority 1 calls 79 percent of the time and achieving the thirteen minute response time for Priority 2 calls 99 percent of the time

The City's contract with the Santa Clara County Emergency Medical Service requires response time performance of 8 minutes or less from the time of dispatch to the time of arrival on scene in 95 percent of emergency responses. Under the FY 2007-2008 Adopted Budget performance data, the City exceeds the minimum performance with a 96 percent response rate within the 8 minute or less requirement.

Fire Department facilities funded by the Neighborhood Security Act Bond Measure include the construction of four new fire stations, relocation of six fire stations, remodeling of 16 fire stations and enhancing fire training facilities. The majority of these facilities have been completed or are under construction.

Environmental Services Department

Domestic Water

The City directly supplies domestic water to 12 percent of residential and commercial customers, with the balance served by private water companies. The City currently meets all of its standards for potable water quality and water use efficiency. Reliance on imported water sources is a potential issue, as the future of water supplies statewide is of increasing concern.

Wastewater

The City's remaining capacity allocation at the treatment plant is sufficient to accommodate full buildout of the existing San José 2020 General Plan, not including the Coyote Valley and South Almaden Valley Urban Reserves.

Recycled Water

The City has an effective recycled water system in place resulting in the achievement of the FY 2007-08 target of 15 million gallons per day (MGD) of recycled effluent diverted from the flow into the Bay. The City is currently evaluating ways to make necessary investments in expanding and maintaining the system infrastructure. Continued expansion of the system is critical to meet the City's goals for both reducing needed water supplies and maintaining approved level of discharge to the Bay.

Solid Waste

The City currently exceeds the General Plan goal (and state mandate) of a minimum of 50 percent diversion of waste from landfills. The Green Vision established a goal to achieve 100 percent recycling and diversion (zero waste) of solid waste materials from landfills by 2022. The City Council approved the Zero Waste Strategic Plan in December, 2008 which identifies policies and programs designed to achieve the zero waste goal. The FY 2007-08 target towards meeting this goal was 61 percent, with the city reaching 60 percent. The combined landfill capacity of the five privately-operated landfills in San José is expected to approach exhaustion between 2020 and 2035. There is anticipated to be adequate capacity in the city's nine recycling or transfer stations and composting facilities throughout the same timeframe. Longer range capacity requirements will be based primarily on the success of the Zero Waste program.

Library Department

The City service standards are 0.59 sq. ft. of library space and 2.75 volumes per capita. Currently, the City has 0.52 sq. ft. per capita, which is projected to increase to 0.56 for the 2009-10 fiscal year. With the completion of capital projects under the 2000 San José Neighborhood Libraries Bond construction program (anticipated by 2012) the City is expected to nearly meet the 0.59 sq. ft. goal. If the projected population for 2012 is at or above the projected level of 1,046,586 residents, and the library expansion remains the same, then additional funding will be needed to meet the needs of the projected population from that point forward. With an estimated 2.2 volumes of library materials per capita, the Library falls short of the current service standard. An additional 1.4 volumes per capita purchased and held by San José State University are available to the public, yet these materials are academic in nature and may not meet the needs of the public at large. The Library continues to emphasize use of technology to expand access to its resources and services, including provision of a wide variety of on-line resources and substantial numbers of public access computers in all branches.

In 2004, San José voters approved a parcel tax to provide a minimum of \$6.2 million annually to support library services, including purchase of new materials, children's programming, maintenance and upgrades of library technology, outreach programs, and basic library operations. Previously, San José voters approved the creation of a Library Benefit Assessment which was replaced by the Library Parcel Tax when the Library Benefit Assessment expired. As the current Library Parcel Tax, which sunsets in 2014, provides for over 45% of the budget for library materials, the Library will fall well short of the volumes per capita service standard unless voters extend the tax.

Parks, Recreation, and Neighborhood Services (PRNS) Department

The General Plan goal for provision of parkland is 3.5 acres per 1,000 population, which includes 1.5 acres of City owned and/or operated neighborhood parks, community parks, and neighborhood and community elements of regional park lands, and up to a maximum 2.0 acres of recreational school lands. Based on a population in 2008 of 989,000, the City is currently 512 acres short of meeting this standard when all recreational school grounds are included.

The City's community center standard is 500 square feet per 1,000 population. The City currently has a surplus of 98,419 square feet based on this standard. By the year 2020, the City is expected to exceed this standard by 10,919 square feet based on anticipated population growth. However, it is important to note that the measurements for parkland acreage and community center square footage are only two indicators of the City's progress towards a balanced parks system. There are 51 areas in the City that do not meet the Urban Environmental Accords goal of having a park or open space within ½ kilometer of every resident. In addition, the City has a severe shortage of sports fields and aquatics facilities.

The City currently does not meet its maintenance and operation funding goals for parks and community centers and conditions are worsening with continued budget shortfalls.

The General Plan does not provide a goal for trails, but the Greenprint Update 2009 as well as the City's Green Vision document both provide a goal to create 100 miles of interconnected trails, under the auspices of a variety of agencies. The City exceeded the 50 mile completion milestone during FY 2008-09.

In November 2000, the voters approved \$228 million in General Obligation Bonds to complete improvements at a number of neighborhood and regional parks; construction/renovation of nine community centers and two sports complexes; and partial development of five trail systems. At the end of 2007-2008, improvements to sixty-nine neighborhood parks and five of the seven regional parks projects, construction of five of the nine community centers, and three of the five trail projects had been completed.

The Department completed an update to the Greenprint in December 2009. Originally adopted in 2000, the Greenprint provides staff and decision makers with a strategic plan for expanding recreation opportunities in the City.

Transportation Department

The Adopted Budget includes performance measures designed to gauge how well the City is meeting the goal to develop a multi-modal transportation system. They include levels of service for traffic flow at intersections, planned arterial streets completed, planned bikeway networks completed, pedestrian corridors meeting design standards, and the City average Pavement Condition Index (PCI) ratings. The level of service goal of 98 percent for traffic flow at intersections at City Council adopted levels of service and completion of planned arterial streets were met by the FY 2007-2008 performance. For planned bikeway networks completed, the FY 2007-2008 Adopted Budget estimate of 56 percent did not meet the service level goal of 60 percent. For pavement maintenance, a PCI rating of 0.66 was established as service level goal. For FY 2007-2008, the estimate of 0.63 indicates that the City did not meet service standards for the City average pavement condition ratings.

The City currently does not meet its maintenance standards for traffic infrastructure and conditions are worsening with continued budget shortfalls. The City's current budget indicates that there is an annual funding deficit of \$27.7 million per year for maintenance operations. In addition, there is \$14.7 million per year in property owner responsibility for repair of sidewalks, curbs and gutters and tree maintenance. The accumulated deferred maintenance has reached approximately \$406 million currently.

The Department is hampered in meeting several of its goals established in the Green Vision due to a lack of funding, particularly for street tree maintenance. However, it is experimenting with low- energy street lighting that could potentially save significant cost as well as reduce energy use.

FISCAL IMPACTS OF EXISTING LAND USES

ADE developed a fiscal impact model that evaluates how existing land uses affect City service costs and General Fund revenues. This helps provide an overall context for considering the mix of land uses that may be desired for future growth. The model has also been adapted to project the fiscal impact of future growth scenarios, as described in the section below.

Throughout the State, the reduced growth in property tax revenues due to a general reduction in property values and the subsequent reliance among cities and counties on the sales tax for general fund revenue has shifted the fiscal balance in favor of commercial land uses. As a result, the non-residential uses in San José show a positive net fiscal balance compared to residential land uses (see Exhibit A). In addition, residential land uses typically require a broader range of municipal services than non-residential, particularly Parks and Recreation, Libraries, Fire and Police.

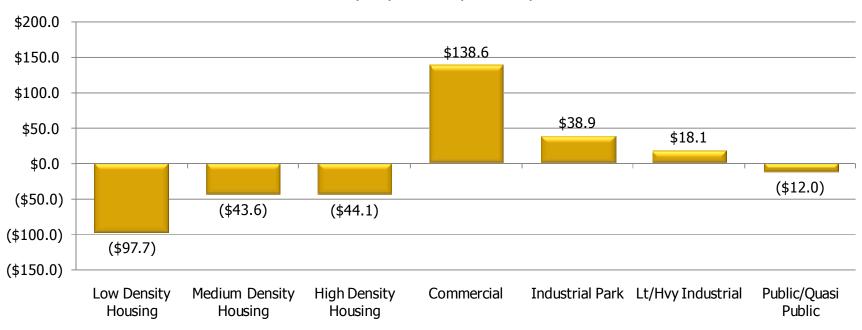
The total figures in Exhibit A reflect the quantity of each land use in San José today; however, indicators per dwelling unit or per resident give a better indication of the net effect of serving future populations. These figures are shown in Exhibit B.

For residential uses, costs per resident decline as density increases, reflecting mainly the efficiency benefits to the City transportation system and road maintenance costs. However, revenues per resident also decrease with density, due to the higher assessed value for lower density units. The per dwelling unit (DU) comparisons show a better performance for high versus both low and medium density units, although the net per resident favors the low density units. These indicators reflect the variations in household sizes relative to unit values.

For consideration of future land uses, it is important to address this comparative fiscal analysis in more detail. The low, medium and high density residential categories in the City's existing land use inventory reflect densities of 5.5, 12 and 25 dwelling units per net acre, respectively. In the future, the City projects that 25 units per acre will reflect medium density development, while high density will average 55 units per acre. ADE has prepared an illustrative analysis to project the fiscal performance of the residential categories at these densities. This analysis transitions into the projections of the future land use scenarios, so it incorporates current assessed values in the analysis and also includes the indirect sales tax revenues from household spending in order to provide a more complete view of the impact of these housing types. The results are shown in Exhibit C below and reflect development of one acre at the various densities indicated above. With the sales tax included, all of the residential types show a positive fiscal benefit rather than negative as in Exhibit A, but the higher density units are more positive.

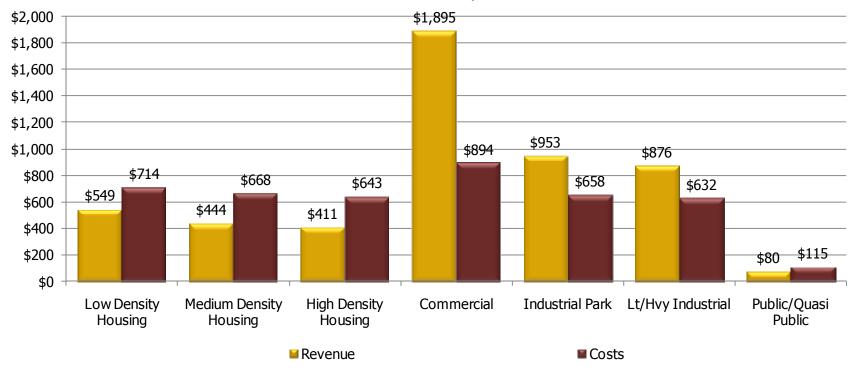
EXHIBIT A FISCAL IMPACT OF EXISTING LAND USES

Net (Cost)/Revenue (in millions)



Note: The chart does not show \$1.9 million in net revenue from vacant and agricultural lands. Source: ADE, Inc.

EXHIBIT B
NET IMPACT PER PERSON/EMPLOYEE



Source: ADE, Inc.

It is important to recognize that the market value of the residential units has an effect on the outcome of this analysis. The figures in Exhibit C are based on average values of about \$740,000 for low density, \$550,000 for medium density, and \$400,000 for high density units. For more affordable units, as assessed values decrease, the fiscal net benefit declines as well. Holding all other variables constant, the density categories shown in Exhibit C would "break even" when unit values reach \$235,000 for low density, \$230,000 for medium density, and \$229,000 for high density. Therefore, while San José places importance on the provision of affordable housing, from a fiscal standpoint it is critical to ensure that new housing is supported with sufficient retail space to capture household spending and generate sales tax for San José. As discussed further below, this is a critical factor in the evaluation of the future growth scenarios for the General Plan Update.

EXHIBIT C
COMPARATIVE ANALYSIS OF RESIDENTIAL DENSITIES FOR ONE
ACRE OF DEVELOPMENT

ACRE OF DEVELOPMENT				
	Low Density	Medium Density	High Density	
NET (COST)/REVENUE				
Per Acre	\$5,250	\$20,540	\$25,200	
Per DU/1,000 sq.ft.	\$1,050	\$822	\$458	
Per Person	\$297	\$265	\$186	
REVENUE				
Per Acre	\$18,310	\$74,600	\$118,060	
Per DU/1,000 sq.ft.	\$3,662	\$2,984	\$2,147	
Per Person	\$1,037	\$961	\$871	
COSTS				
Per Acre	\$13,060	\$54,060	\$92,860	
Per DU/1,000 sq.ft.	\$2,612	\$2,162	\$1,688	
Per Person	\$739	\$696	\$685	
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Source: ADE, Inc.

The analysis of non-residential land uses shows their positive fiscal benefits, with the exception of public/quasi-public uses. Commercial uses provide the highest positive fiscal benefit, due primarily to the significant sales tax generation of such uses. The commercial land use does require a higher level of police protection, however, and thus has the highest per employee cost for services.

C. FISCAL IMPACTS OF FUTURE DEVELOPMENT

The City has indentified five future growth scenarios for the 2040 General Plan time horizon, and one interim projection for 2020 that reflects the existing General Plan. ADE has evaluated the fiscal impact of these scenarios and the summary results are shown in Exhibit D below. The figures in the table represent the annual net revenue to the City General Fund at full buildout of the scenarios. The table also shows the projected growth in jobs and housing for each scenario as well as the ratio of jobs to employed residents (ER). A

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¹ It should be noted that the scenarios have been constructed to achieve certain ratios of employed residents to jobs at full buildout, accounting for the current ratio of 0.8 jobs per employed resident. However, the fiscal analysis analyzes only the new growth in each scenario so the Exhibit shows only the ratio pertaining to the growth increment.

key variable driving the fiscal performance of the scenarios is the amount of retail development, which generates additional sales tax for the City General Fund. The percent of job growth in retail for each scenario is shown in the right hand column.

EXHIBIT D
SUMMARY OF FISCAL IMPACTS OF FUTURE GROWTH SCENARIOS
(ANNUAL GENERAL FUND NET (COST)/REVENUE AT FULL BUILDOUT)

Scenario	Net Annual Fiscal Impact	Job Growth	Housing Growth	Incremental Jobs/Housing Ratio	Percent of Jobs in Retail
Scenario 5 - H	\$32,886,116	428,550	135,650	3.2	8.8%
Scenario 4 - J	\$32,590,161	526,050	88,650	5.9	6.5%
Scenario 2 - E	\$25,728,048	360,550	135,650	2.6	9.4%
Scenario 1 - C	\$25,499,308	346,550	88,650	3.9	6.6%
Scenario 3 - K	\$20,427,419	339,530	158,970	2.1	11.0%
SJ 2020	\$2,293,427	255,550	82,110	3.1	4.7%

Source: ADE, Inc.

The scenarios are presented in Exhibit D in order of the magnitude of annual fiscal impact of the growth increment at buildout. The current ratio of jobs to housing in San José is about 1.2 and all of the future scenarios add more jobs than housing so they produce a positive fiscal impact. However, the amount of retail development in each scenario has a greater effect on the relative performances of the scenarios. Thus, Scenario H and Scenario SJ2020 are first and last in the table and have jobs/housing ratios of 3.2 and 3.1, respectively. But Scenario H has 8.8 percent of its jobs in retail while Scenario SJ2020 has only 4.7 percent.² For the same reason, Scenario E scores better than Scenario C, and Scenario K scores better than Scenario SJ2020 while still providing higher levels of housing.

D. CONCLUSION

Based on this fiscal analysis, San José can support higher levels of housing development, which is needed to house the future labor force and stimulate job growth, provided the City can ensure that the commercial sector expands accordingly and that San José enhances its stature as a regional retail center.

In terms of selecting a preferred alternative, because any of the scenarios would provide an acceptable fiscal outcome, the Task Force can consider selecting a scenario that provides more housing or one based on a more realistic target in terms of job growth, and still achieve a fiscal balance for the City General Fund. For example, Scenario 3-K, which has a high level of housing growth, performs well on a fiscal basis because it provides a relatively strong component of retail growth, along with other development. The added sales tax from this retail growth helps to support the service costs for other land uses in that Scenario. All of the scenarios include a significant increase in the City's job base, along with capture of the full amount of retail needed to serve the demand generated by new growth in the scenario.

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² Percent of jobs in retail is a convenient way to compare the level of retail development in each scenario. The fiscal model actually calculates sales tax on the basis of retail building sq.ft. For comparison, it is estimated that retail employment currently represents about 10 percent of total employment in San José.

The City should ensure that these two conditions are met throughout the implementation of any scenario.

Given the long term time frame of the General Plan, the phasing of development is an important consideration in implementing the plan. Ideally, residential development, retail commercial development, and employment generating business growth would proceed in balance so that shopping opportunities are available to new residents as well as local job opportunities. While it is often difficult to control market forces through City land use and zoning standards alone, the City has an opportunity through its implementation of the Village concept to balance residential and commercial development on an incremental basis. From a fiscal perspective, it would be important to approach the design of new Villages from the standpoint of a creating viable commercial core for each Village, around which to cluster residential and other land uses. One of the greatest challenges in creating successful mixed use projects is in properly sizing the commercial element, recognizing that the market area for the commercial development may be very different than the geographic extent of the new residential development. Consideration of commercial priorities in the planning process will help improve the fiscal health of San José.